



**Legislative Department
Seattle City Council
Memorandum**

Date: September 22, 2012

To: City Council

From: Tony Kilduff

Subject: **Resolution 31408:** City Intervention in the Affairs of the Seattle Indian Services Commission

The Housing, Human Services, Health & Culture Committee will discuss Resolution 31408 on Wednesday, September 26. The Resolution makes findings establishing the need for the City to intervene in the affairs of the Seattle Indian Services Commission ("Commission"), and authorizes the Mayor to intervene under Seattle Municipal Code Section 3.110.440 to correct the deficiencies. This memorandum summarizes the issues leading to the proposed action.

Brief Background on the Commission

The Commission is a public corporation created by the City in 1972. Its mission is to provide effective, comprehensive, and coordinated planning services, activities, and programs to meet the unique needs of the many Native American residents of Seattle.

The Commission's governing body, the Governing Council, is made up of two representatives from each of four groups: The American Indian Women's Services League, the Seattle Indian Health Board ("Health Board"), the Seattle Indian Center ("Center"), and the United Indians of All Tribes Foundation.

The Commission owns the Pearl Warren Building and the Leschi Center, both located at 12th Ave South and S. Weller. Both buildings were financed with municipal bonds guaranteed by the City. The Commission pays the debt service on the bonds and covers operating costs from rent it receives from tenants in the two buildings. The Health Board, which occupies 50% of the Pearl Warren (the Commission occupies the rest) and 70% of the Leschi Center, provides a variety of health-related services to the community. These include medical and dental clinical services, mental health, domestic violence, dependency counseling services, and youth, elder, and veterans community services.

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The Center leases the remaining 30% of the space in the Leschi Center. It too provides a number of community services aimed at families and children, key among them is emergency shelter and a hot meals program. It is currently over \$70,000 in arrears in its rent.

The Need for City Action

The Commission has proven unable to govern itself effectively or manage its assets. This has led to a number of issues including the continued deterioration of the Pearl Warren Building. The internal management and governance problems of the Commission have been documented in recent bi-annual audits conducted by the State Auditor. The most recent (2010 Accountability Audit Report No. 1006665 ("Report"), October 11, 2011) contained adverse findings in several areas. Among other things the Report finds:

- Inadequate Commission Governing Council oversight of activities and poor internal controls. In particular, the Report states that "[d]espite past recommendations, the [Governing] Council provided no direction or oversight of former management's activities, resulting in significant issues that call into question the Commission's continued operations." Notably, it finds that the lack of oversight "greatly increased the risk of unnecessary payments and a waste of public resources.";
- Inadequate and incomplete financial reporting. The Commission has repeatedly violated Washington state law in failing to file required audited financial reports with the State Auditor since 2008. Although not raised in the Report, the Commission has also violated City statutes by failing to file the annual reports with the City;
- Half of the voting members of the Governing Council represent tenants of the Commission resulting in a potential conflict of interest. This may have led to another finding: That the Commission does not set annual fees sufficient to pay for all building-related costs including capital maintenance and repairs and basic operating costs; and
- The Commission has no capital reserves, as required by the operating agreement between the City and the Commission, to pay for future capital costs or currently needed repairs.

The State Auditor made a number of recommendations aimed at addressing these deficiencies:

1. The Commission's charter be amended to make it independent of its tenants;
2. The City take over its administrative functions temporarily, including collecting money and making payments, until adequate controls are in place;
3. The Commission hire or contract with individuals experienced in property management, state law, and government financial reporting to administer its operations; and
4. The Commission set building use rates sufficient to meet its costs, and immediately collect all past-due amounts. As noted above, the Center is in arrears in its rent.

The failure of the Commission to correct these deficiencies has allowed damage to the Pearl Warren Building from persistent water infiltration to go unaddressed for a number of years. The damage now stands at \$2.5 million, according to the City's building inspectors. As the Report notes, the Commission failed to establish and fund a capital reserve and does not have the resources to fix the problems. The Health Board, the sole paying tenant in the Pearl Warren, gave notice in December 2009 that it will leave the building if the building is not repaired. It has forestalled action because of a commitment by the City that it will see these issues resolved. Should the Health Board leave the Pearl Warren, the City would be required to cover \$435,000 in debt service on the Commission's bonds to avoid default. That would be an ongoing General Fund expense.

The Purpose of this Resolution

In view of State Auditor's Report and the financial risk to the City inherent in the loss of the sole paying tenant in the Pearl Warren Building, the City is compelled to intervene to correct the deficiencies. This Resolution authorizes the Mayor to act on behalf of the City in this matter and to take whatever steps are necessary to correct the deficiencies, ensure that the Commission does not default on its bond obligations, and to ensure the preservation of the assets for the purposes for which they were intended. Although the Mayor will decide what steps are necessary, we may assume that they will include revision of the Commission's Charter to eliminate the positions on its Governing Council for organizations that are tenants of the Commission—specifically, the four positions for the Health Board and the Center—while leaving in place the two representatives from each of the American Indian Women's Services League and the United Indians of all Tribes Foundation. To avoid the possibility of deadlock, the Mayor will likely create a new position for a total of five members on the Governing Council.

Summary of Physical & Financial Elements

	Pearl Warren	Leschi Center
Square feet	20,727	45,145
Occupants		
Seattle Indian Health Board	10,985	30,247
Seattle Indian Service Commission	9,742	
Seattle Indian Center		14,898
Lease payments		
Seattle Indian Health Board	\$443,000	\$320,000
Seattle Indian Center		\$162,000
Annual debt service	\$435,000	\$368,000
Outstanding debt as of Dec 31, 2011 (\$MM)	(\$4.59)	(\$2.19)
Appraised value \$MM (2006/2010)	\$2.70	\$6.75
Estimated repair cost	(\$2.50)	
Net value	(\$4.39)	\$4.57

The Pearl Warren represents a net liability of over \$4 million between the debt outstanding and the repairs that need to be made. The Leschi Center represents a net asset of \$4.75 million. Combined the assets have a net positive value, although barely so.